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# ECONOMICS

Paper 0455/01

Paper 1 (Core)

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	<b>B</b>	21	<b>C</b>
2	<b>B</b>	22	<b>C</b>
3	<b>A</b>	23	<b>D</b>
4	<b>B</b>	24	<b>B</b>
5	<b>C</b>	25	<b>D</b>
6	<b>C</b>	26	<b>A</b>
7	<b>D</b>	27	<b>A</b>
8	<b>C</b>	28	<b>A</b>
9	<b>D</b>	29	<b>D</b>
10	<b>C</b>	30	<b>D</b>
11	<b>D</b>	31	<b>C</b>
12	<b>B</b>	32	<b>B</b>
13	<b>A</b>	33	<b>D</b>
14	<b>D</b>	34	<b>B</b>
15	<b>C</b>	35	<b>A</b>
16	<b>C</b>	36	<b>C</b>
17	<b>A</b>	37	<b>A</b>
18	<b>C</b>	38	<b>A</b>
19	<b>D</b>	39	<b>C</b>
20	<b>A</b>	40	<b>C</b>

## General comments

1332 candidates took this paper in November 2004 and the mean score was 20.6, almost identical to the mean of November 2003, which itself was the highest mean mark since 1998. This is a commendable achievement for the candidates.

The most difficult questions were **11**, **17** and **39**, with fewer than 25% of the candidates answering correctly. In **Question 11** the correct key was D – chosen by 21% of the candidates. The other options were chosen by 27%, 20% and 32% respectively. This type of result would indicate that either candidates were guessing or, although they might have had some knowledge of the reasons for shifts in demand and supply curves, they were unable to apply their knowledge in this particular question. None of the options **A**, **B**, **C** results in a price rise. It might be worthwhile asking future candidates to work through this question to establish links between shifts in demand and supply curves and resulting price changes.

A similar confusion occurs with **Question 17**, which again requires a knowledge of shifts of demand and supply curves. The correct key is **A**, chosen by 23% of the candidates. The other options were chosen by 11%, 26% and 39% respectively. A decrease in the supply will move the supply curve to the left. Only **A** allows this to happen. **Question 39** has the correct key of **C**, chosen by 19% of the candidates. 40% chose **B**, 22% **A** and 18% **D**. A reduction in the cost of a required item of machinery (truck) would most benefit those who have to buy the product.

**Papers 0455/02 and 0455/04**  
**Structured Questions**

**General comments**

The quality of the answers varied greatly. There were some very good answers from a number of candidates who revealed a sound understanding of economics and a mature ability to analyse and evaluate key economic concepts and issues, but there were also many weak answers where the candidates failed to demonstrate very much knowledge or understanding. There were relatively few rubric errors; this was an improvement on previous years when candidates sometimes answered more than the required four questions.

Candidates need to pay attention to the precise instruction in the question. For example, if the question asks the candidate to state something, as in **Question 2 (c)**, or to identify something, as in **Question 3 (b)**, then he or she simply needs to write a brief answer. However, if the question requires the candidate to discuss something, as in **Question 4 (d)**, or to explain something, as in **Question 5 (d)**, he or she needs to go into much more detail, often giving two sides of an argument and then coming to a conclusion. Candidates need to look very closely at the number of marks given to each part of a question as this gives a clear indication of how much detail is required.

One problem for the Examiners is that a number of candidates fail to put the answers in the correct order, often mixing up answers to different questions. This makes it very difficult for the Examiners, and candidates really need to allow time at the end of the examination to put their work in the correct order.

**Comments on specific questions**

**Question 1**

- (a) Most candidates had a general idea that low prices might discourage farmers from growing cotton but some of the explanations were rather vague. It was expected that candidates would link the low supply with lower revenue and lower profits, but this link was not always made clear.
- (b) The question specifically asked candidates to use a demand and supply diagram but, in spite of this instruction, a number failed to do so. The majority of candidates did, however, draw a very clear diagram showing a shift of the supply curve to the left and labelled both the demand and supply curves and the axes. Some, however, failed to include a shift of the supply curve or to label the two axes. The explanations were often better, making it clear that a leftward shift of the supply curve would lead to a rise in the equilibrium price. Relatively few candidates, however, made an explicit reference to the different time period.
- (c)(i) Most candidates were able to identify the measures that India might take to increase its production of cotton, such as the use of better seeds, better forms of pest control, improved systems of irrigation and the provision of subsidies from the Indian government to provide financial support for such measures.
- (ii) This proved to be quite a difficult question for a number of candidates who did not seem to understand the difference between fixed and variable costs.

There were, however, many very good answers to this question, with candidates relating two of the measures chosen in the first part to fixed and variable costs and ultimately to possible changes in revenue. For example, expenditure on seeds could be considered an example of variable costs whereas expenditure on irrigation systems would be more likely to be considered an example of fixed costs. The discussion of revenue was sometimes confused with the concept of profit.

- (d) There were some very good answers to this part of the question, with many candidates explicitly referring to export earnings from the trade in visible goods appearing in the current account.

**Question 2**

- (a) The majority of candidates clearly understood that the public sector referred to a situation of state ownership and/or control involving central and/or local government. However, some were not sure of the concept and confused it with a public limited company, which is actually in the private sector. Most candidates were able to give an example of a public sector occupation, although some of the answers were not unambiguously correct. For example, it was not enough to refer to a teacher in a school because if that school was a private school, the teacher would be working in the private rather than the public sector.
- (b) Most candidates were able to describe the various functions of trade unions, such as the use of collective bargaining to improve wages and salaries, working conditions, health and safety and other terms of employment and legal representation. Some, however, provided just a list without describing the various functions, and this obviously restricted the mark which could be awarded. Most candidates were able to choose one function that might be considered the most important and then to offer a reasoned account why that one was chosen.
- (c) This was a relatively straightforward question and most candidates were able to state three factors that might determine an individual's choice of occupation, such as the wage or salary, the working conditions, the fringe benefits, the possibility of promotion, the holiday entitlement or the convenience in terms of travel.
- (d) This proved to be quite a difficult question for many candidates and a number of the answers were rather vague and general. The better answers, however, placed wage differentials within the context of the theories of demand for and supply of labour and linked this discussion to elasticities. There was also some good discussion of the importance of training and productivity and of the potential impact of the trade unions. There was no explicit requirement to include diagrams in the answer but some of the better answers did include appropriate diagrams, which aided the explanation.

**Question 3**

- (a) There were some very good answers to this part of the question. The majority of candidates were able to distinguish clearly between a direct tax on the income of a person or the profit of a company at source, which could not be easily avoided, and an indirect tax on expenditure on a good or service that need not be paid if the good or service is not purchased. Examples of direct taxes included income tax, corporation tax, capital gains tax or inheritance tax, while examples of indirect taxes included VAT or excise duties.
- (b) Most candidates were able to identify three types of unemployment and these included seasonal, cyclical or demand deficient, technological, frictional, residual and regional unemployment. The explanations of their causes, however, varied greatly. Some candidates demonstrated a very good knowledge and understanding of the causes of the three types chosen but some were very confused and did not seem to understand how the different types of unemployment were actually caused.
- (c) This was another question where some candidates failed to do themselves justice because they only listed four main aims of government macro-economic policy without describing them. A number of candidates, however, did extremely well and obtained maximum marks by describing such aims as the control of inflation, the reduction of unemployment, the promotion of economic growth, equilibrium in the balance of payments and the redistribution of income and wealth.
- (d) This proved to be a difficult question for candidates who were unable to link the aims described in the previous section with a rise in taxes.

Many answers, however, were very good, with candidates recognising the possibility of a conflict between the various aims. For example, a rise in taxes might help to reduce inflation but it would be unlikely to contribute to a fall in unemployment.

**Question 4**

- (a) The first part of the question produced a wide variety of answers. Some were very good, identifying and explaining such issues as family planning, HIV and Aids, hygiene, sanitation, healthy eating, or drug, alcohol and cigarette abuse. Others, however, were very poor with candidates failing to understand that the question was concerned with a health education programme.
- (b) Most candidates were able to describe how the age structure of the population in a developing country differed from that in a developed country, such as the fact that the former would be likely to have a higher proportion of young people while the latter would be more likely to have a higher proportion of elderly people. A number of candidates used diagrams to good effect. One problem with some of the answers, however, was that they did not focus purely on the age structure but went on to include a number of irrelevant areas such as the occupational structure.
- (c)(i) There were some very good answers to this first part of the section, with candidates explaining very precisely what was meant by opportunity cost in terms of the next best alternative forgone when a choice is made.
- (ii) The second part of this section, however, was not answered so well and many of the answers were very vague and general. Some, however, were very good and recognised that a social benefit was the sum of the private and the external benefit.
- (d) This proved to be a difficult question. Good answers applied the concept of opportunity cost in terms of the other things that could have received the money that had gone to health care, and the concept of social benefit in terms of the external, and not just the private, benefits of being healthy.

**Question 5**

- (a) Most candidates had some idea of what was meant by economic growth, but some of the answers were rather vague and general. The better answers, however, discussed it in terms of the increase in real Gross Domestic Product over a period of time leading to an increase in a country's productive potential and an improvement in standards of living, welfare and the quality of life. A number of candidates also explained it in terms of an outward shift of the production possibility curve or frontier and included an appropriate diagram to illustrate this.
- (b) The better candidates recognised that there could be both advantages of economic growth, such as improvements to standards of living, and disadvantages, such as the more rapid depletion of scarce resources. They attempted to consider both points of view before coming to a conclusion. The weaker candidates, however, failed to consider both sides of the argument and offered a one-sided perspective.
- (c) There were some very good answers to this part of the question. Candidates recognised that a reduction in trade barriers might increase a company's profits in two ways. First, the imported raw materials and component parts would now be cheaper. Secondly, there would be an encouragement to export more, and so companies would be able to benefit from larger markets.
- (d) A number of candidates clearly had very little idea of the precise meaning of the term investment and discussed it in terms of acquiring shares rather than the purchasing of capital equipment and machinery. A number of answers, therefore, were very poor. Better answers linked expenditure on both physical and human capital to improvements in production and increased international competitiveness.

**Question 6**

- (a) This proved to be quite a difficult question for many candidates. Better candidates explained that the currency was now more stable and then went on to explain why this might be the case, such as a greater degree of confidence in the economy and therefore in the currency.
- (b) Most candidates recognised that this was because of the forces of supply and demand. There were a number of good answers that then discussed what might influence supply and demand, such as trade patterns, relative levels of interest rates and the possibility of speculation.
- (c) A number of candidates believed that it would be advantageous if a currency gained strength and failed to point out that although imports would now be cheaper, exports would now be more expensive and this situation could lead to a worsening of the balance of payments.

- (d) One problem with some answers was that although the question explicitly stated that candidates were to consider two policies *other than* exchange rate changes, some candidates still decided to refer to exchange rates. The majority of candidates, however, did look at other possible policies that might be used to try and achieve a surplus rather than a deficit. These included ways of discouraging imports, such as through the use of tariffs or quotas, and ways of encouraging exports, such as through the use of subsidies to keep down the costs of production.

### Question 7

- (a) The majority of candidates were able to discuss a number of possible methods, including television, radio, newspapers, magazines, cinema, the internet and street hoardings. Some, however, only offered a list. In order to obtain maximum marks, candidates needed to explain what methods might be best, i.e. those which would most appeal to children and their parents.
- (b) There were some good answers to this part of the question, with candidates recognising that there could be both gainers and losers. The beneficiaries would include the cinemas, the advertising companies and those companies producing ancillary complementary products such as toys, games, books and computer games. The losers would be those companies producing alternatives that would be less desired, such as other films and other toys and games that would be in direct competition.
- (c) The majority of candidates recognised that large organisations might have a number of advantages over smaller companies, especially in terms of economies of scale, which would help to keep down the costs of production and so make the large firm more cost-efficient. This could especially be the case with film companies, given the high capital costs involved in producing a film and the cost of distribution. A number of candidates did point out, however, that it still might be possible for small firms to exist in the film industry and gave as examples a number of films produced by relatively small independent film companies.

**Paper 0455/03**  
**Paper 3 (Extended)**

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	<b>B</b>	21	<b>C</b>
2	<b>B</b>	22	<b>C</b>
3	<b>D</b>	23	<b>D</b>
4	<b>B</b>	24	<b>B</b>
5	<b>C</b>	25	<b>D</b>
6	<b>C</b>	26	<b>A</b>
7	<b>D</b>	27	<b>A</b>
8	<b>C</b>	28	<b>A</b>
9	<b>D</b>	29	<b>D</b>
10	<b>C</b>	30	<b>D</b>
11	<b>D</b>	31	<b>C</b>
12	<b>B</b>	32	<b>B</b>
13	<b>A</b>	33	<b>D</b>
14	<b>D</b>	34	<b>B</b>
15	<b>A</b>	35	<b>C</b>
16	<b>C</b>	36	<b>C</b>
17	<b>A</b>	37	<b>A</b>
18	<b>C</b>	38	<b>A</b>
19	<b>A</b>	39	<b>C</b>
20	<b>D</b>	40	<b>C</b>

**General comments**

2092 candidates took this paper in November 2004 and the mean score was 24.8. This was slightly above the mean last year which itself was the highest mean mark since 1999.

Six questions, **1, 5, 21, 22, 28** and **31** were particularly easy for the candidates, with over 85% choosing the correct answer.

The most difficult questions were **19** and **23**, with only 26% and 21% of the candidates respectively answering the question correctly. The results for **Question 19** show that 43% choose option **C**, 19% **D** and 11% **B**. The choice of **C** confuses total and average earnings. The chart shows average earnings but it does not show the total number of hours worked, nor the total number of employees. It is not possible to compute the total earnings from the information given. For **Question 23**, the results show 38% choosing option **A**, 17% **B**, 23% **C** and 21% **D** – the correct answer. The choice of **A** is the total variable cost excluding wages. However, wages are counted as a variable cost. It is true that salaries are sometimes referred to in the texts as fixed costs but this is not the case for wages. Candidates were also told that there were 50 employees and so they needed to compute the total cost of wages (50 x 40) and add that to the other variable costs of power and raw materials. Option **B** is the sum of the first three items in the list, which include the fixed cost of the machinery, and option **C** is the sum of the whole list, which includes the fixed cost of the machinery and ignores the fact that there were 50 employees.

**Paper 0455/06**

**Alternative to Coursework**

**General comments**

The overall quality of answers was comparatively good, with a significant number of Centres producing scripts of a very high standard. It was pleasing to note that there appeared to be very few problems regarding interpretation of question rubric and consequently very few entirely irrelevant answers. Written English has continued to improve and there was more evidence of a better grasp of the basic economic principles. There was some variation regarding separate question performance but the general trend continued to be one of improvement. Candidates have clearly been better prepared and this has undoubtedly been reflected by the significantly large number of candidates gaining a pass at Grade E or above.

**Comments on specific questions****Question 1**

- (a) This question required a straightforward use of the accompanying text to identify two reasons why oil prices had risen. The overwhelming majority recognised both the effects of war and the effect of industrial action, and therefore gained both marks.
- (b) Candidates needed to recognise that this question required two separate explanations. Two marks were available for an explanation of co-operation in terms of industrial production, and two marks for an explanation of a stable market. Very few answers addressed both of these and therefore only a relatively small number gained full marks. There was a tendency to refer to the terms but not to explain them in relation to the text.
- (c)(i) There were many opportunities to gain high marks for this question and many candidates gained full marks. Some answers produced linked, developed responses, which addressed key issues such as the effect on national income and the balance of payments. Others relied on wider ranging separate macro points, which were also acceptable. Very good answers distinguished between short term and long term regarding the use of resources.
- (ii) This part was dealt with less effectively, although many were still capable of gaining more than half marks. Loss of revenue and market share were commonly identified as the main negative effects on the OPEC countries. Few recognised that OPEC might decide to take retaliatory action.

- (iii) There was some evidence of use of the same points raised in (ii) regarding the possible effects on the Balance of Payments and the National Income. This was acceptable provided candidates provided a supporting rationale, for example an increase in supply would produce cheaper oil imports or a reduction in oil price would lead to lower manufacturing costs and thus stimulate output, income and employment. Many simply stated that oil price would fall but they did not provide any further development. Weaker candidates concluded that higher supply would lead to higher prices. Good answers suggested that the overall effect on Balance of Trade would ultimately depend upon price elasticity of demand for imports.

## Question 2

- (a) A significant number of candidates gained both marks for this question. Most were able to recognise that GDP represented Gross Domestic Production, although some were confused regarding the exact meaning of 'per capita'. Candidates who simply set out the formula:

$$\frac{\text{Gross Domestic Product}}{\text{Population}} = \text{GDP per capita} \quad \text{gained full marks.}$$

- (b)(i) Candidates needed to refer to the location of production or distribution outlets in more than one country and to say that such companies would be large. This was a straightforward knowledge-based question, which was dealt with reasonably satisfactorily. Marks were lost through vague responses, which made no reference either to the actual size of the company or the nature of its operations overseas. 'Branches' were frequently referred to. Marks were awarded for appropriate examples, for example Coca Cola.
- (ii) A surprisingly large number of candidates gained full marks for this question. It was a more demanding question because there was no help from the text. The repatriation of profits was the most frequently referred to, but many were also aware of the possible negative effects on local employment and the country's balance of payments, as well as the exploitation of scarce resources. Occasionally candidates commented on positive effects, while some simply copied any material relating to India directly from the text, gaining no marks.
- (c) Far too many candidates copied verbatim from the text. This is not acceptable, as has been pointed out frequently in the past. It is important that candidates use their own words. References to the benefits of modern technology and management expertise, with subsequent efficiency gains, were common. Better answers linked these to opportunities to develop China's infrastructure and encourage economic growth. In many instances answers also recognised the longer-term benefits associated with retaining global power and influence.
- (d) There were a wide range of responses to this question and as such this proved to be a significant discriminator. Candidates were expected to examine both aspects of the argument i.e. the benefits to the Chinese people as well as any potential drawbacks. They were also given the opportunity to use indicators in the article relating to infrastructure to support their argument. Good answers provided detailed commentary relating to the benefits of higher income levels, incorporating both micros (individual) and macro (government) elements. Unfortunately many responses focused entirely on the benefits of high levels of GDP per capita and therefore failed to gain maximum marks. Full marks were gained by candidates who referred to the above and who also discussed potential costs, in particular the long-term social costs associated with possible pollution and the over use of non-renewable resources. Some excellent answers raised important issues regarding the distribution of GDP, therefore further questioning the potential benefits going to Chinese people in general. Weaker candidates tended to list factors rather than discuss/develop points raised. A small minority repeated the 'foreign investment' arguments from (c).